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(for Self-employed Individuals)

EMPLOYER HEALTH TAX

 Ontario

Ministry of Finance

Guide for Self-employed Individuals

Who is taxable?

All self-employed individuals who are **both**:

- 1) resident in Ontario, **and**
- 2) have net self-employment income from all sources **of more than \$40,000** for the year, **some or all** of which is earned in, or allocated to, Ontario.

Please Note:

Self-employed individuals also have to pay the Employer Health Tax on their payroll, if they have employees.

Who is not taxable?

- Self-employed individuals whose net self-employment income from all sources is \$40,000 or less for the year;
- Corporations, limited partners, trusts (in most cases), and non-residents of Ontario carrying on business in Ontario; and
- Status Indians who are self-employed and operating an unincorporated business on a reserve do not pay the Employer Health Tax on their self-employment income earned from that business.

Who is a “self-employed” individual?

A self-employed individual is an individual who carries on one or more businesses, either alone or as a member of, or a participant in, a partnership, joint venture, syndicate, or similar unincorporated organization. However, a limited partner of a limited partnership is not included in this definition.

EXAMPLES:

- businesspeople
- partners in partnerships
- professionals
- commissioned salespeople
- those who farm and fish

What income is taxable?

Net self-employment income of more than \$40,000 for the year, if it includes income which is earned in, or allocated to, Ontario. [Note: Self-employed Ontario residents who carry on a business in Ontario and in a jurisdiction other than Ontario will have to pay the tax **only** on the portion of their net self-employment income allocated to Ontario].

Income received as a limited partner of a limited partnership is not taxable.

Are losses deductible?

A loss from self-employment is deductible from self-employment income of the same year only, with no loss carry-back or carry-forward. Losses incurred as a limited partner of a limited partnership are not deductible at any time.

What is net self-employment income?

An individual's net self-employment income for a year is the total of all net income earned from businesses operating inside and outside of Ontario (world income).

A self-employed individual with more than one business must add up all the self-employment income from all businesses, and deduct the current year's self-employment losses, if any, to arrive at the net self-employment income. This amount cannot be a negative number.

EXAMPLE:

A self-employed individual operating three different businesses in a given year with the following income and loss breakdown:

Business	Location	Self-employment Income	Self-employment Loss
1	Ontario	\$80,000	
2	U.S.A.	\$70,000	
3	Quebec		\$20,000
The net self-employment income for the year is \$130,000 (\$80,000 + \$70,000 - \$20,000 = \$130,000).			

Fiscal period versus taxation year

All self-employment income (including self-employment income earned outside of Ontario) is reported in the calendar year in which the fiscal period ends. This method of reporting income is the same as is required for income tax purposes. If more than one fiscal period of a business ends in a particular calendar year, the income from all such periods is taxable for the purpose of Employer Health Tax in that calendar year.

How is the tax calculated?

For the lowest and the highest tax brackets, the tax is calculated by multiplying the **taxable self-employment income** by the applicable **tax rate**. For the middle tax bracket, the tax is calculated by using a set formula (see explanation of set formula below). The taxable self-employment income is arrived at by subtracting the \$40,000 exemption from the net self-employment income, (including income earned outside of Ontario).

A tax deduction of 22 per cent is then applied. (Please see the “Examples of tax calculation” on page 4 of the guide).

Note: Self-employed Ontario residents who carry on a business in Ontario and in a jurisdiction other than Ontario will have to pay the tax only on the portion of their net self-employment income allocated to Ontario under a formula similar to the income tax formula.

The tax rate is based on the individual’s net self-employment income, before the \$40,000 exemption*, as shown in the following table.

Net self-employment income before deducting the \$40,000 exemption	Tax rate
Up to and including \$200,000.00	0.98%
\$200,000.01 to \$400,000.00	The tax is calculated by using a set formula **. The tax rate will range between 0.98% and 1.95%, depending upon the amount of net self- employment income.
Over \$400,000	1.95%

* The \$40,000 exemption for self-employed individuals is **not** prorated for fiscal periods of less than twelve months.

** If the net self-employment income is more than \$200,000, but less than or equal to \$400,000, the tax payable for the year is determined based on this formula:

$$T = \$1,568 + 0.02726 \times (N - \$200,000)$$

where: T is the amount of tax payable in dollars; and
N is the amount of net self-employment income for the year.

EXAMPLES OF TAX CALCULATION

Tax Bracket	Net Self-employment Income before deduction of \$40,000 exemption	Taxable Self-employment Income after deduction of \$40,000 exemption	Tax Payable Based on Pre-1993 Budget	1993 Budget Change: 22% Tax Deduction*	Tax Payable After the 1993 Budget Change
0.98%	\$100,000	\$ 60,000	\$ 588	\$ 129	\$ 459
> 0.98% to < 1.95%	\$300,000	n/a	\$4,294	\$ 945	\$3,349
1.95%	\$500,000	\$460,000	\$8,970	\$1,973	\$6,997

* It was announced in the 1993 Budget that self-employed individuals who have to pay the tax on their self-employment income will receive a 22% tax deduction on the tax otherwise payable. This deduction is intended to compensate self-employed individuals for the lack of income tax deductibility of the Employer Health Tax on self-employment income.

How is the tax calculated for individuals carrying on a business inside of and outside of Ontario?

For self-employed individuals carrying on a business through a permanent establishment in Ontario and in a jurisdiction other than Ontario, the tax payable will be based on the proportion of self-employment income allocated to Ontario for federal personal income tax purposes. Taxpayers who are in this situation and need information about either the formula used to calculate the tax or other matters, should phone the Employer Health Tax Branch. The Branch phone numbers are listed on page 6 of the guide.

How is the tax calculated in 1993 for a fiscal period that began on or before the Ontario Budget of April 30, 1992?

Where the 1993 taxation year includes a fiscal period that commenced on or before April 30, 1992, tax otherwise payable for 1993 will be restricted to the proportion that **the number of days in each 1993 fiscal period after April 30, 1992 is of the number of days in each 1993 fiscal period**. For example:

A self-employed individual carries on a business in Ontario, with the following financial information:

1993 fiscal period	number of days in fiscal period	number of days in fiscal period that is after April 30, 1992	Net self-employment income (N)
February 1, 1992 to January 31, 1993	366	276	\$100,000



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The amount of tax payable for 1993 is

$$= 78\% \times 0.98\% \times (N - \$40,000) \times \frac{\text{# of days in 1993 fiscal period that is after April 30, 1992}}{\text{# of days in 1993 fiscal period}}$$

$$= 78\% \times 0.98\% \times (\$100,000 - \$40,000) \times 276/366$$

$$= \underline{\underline{\$345.86}}$$

How is the tax paid?

The Employer Health Tax for Self-employed Individuals is a tax paid on a semi-annual basis by an instalment which is followed by the filing of an annual return. The **instalment** is due by November 15th, while the **annual return** is due by May 15th of the following calendar year.

Instalment - Due November 15th

Before the instalment due date, all self-employed individuals who registered will receive an Instalment Statement. It should be completed and returned to the Employer Health Tax Branch with the required payment. *If the calculated amount is less than \$100.00, it is not necessary to send in the instalment.*

An instalment equal to one half of the lesser of **either**:

- a) tax payable for the current year; or
- b) tax payable for the immediately preceding year *

is due on **November 15th** of each year.

* Even though the tax did not exist in 1992, for the purpose of the 1993 instalment, the tax for 1992 is calculated as if the tax did apply for that year.

Further information about making the instalment will be included with the Instalment Statement.

Annual Return - Due May 15th

An Annual Return with instructions will be sent out to all registered self-employed individuals. The Annual Return will help the individual to calculate the actual tax due for the year. Any balance of tax owing must be paid with the Annual Return by **May 15th** of the following calendar year.

How to register

A self-employed individual, resident in Ontario on December 31st, with an actual or estimated net self-employment income, (including income earned outside of Ontario), of **more than \$40,000**, some or all of which is allocated to Ontario, must register with the ministry.

Self-employed individuals can register by calling any of the numbers listed in the "Forms and enquiries" section on page 6. They can also register by completing a "Registration Form for Self-employed Individuals", available from the Ministry of Finance. Self-employed individuals should be prepared to provide their social insurance number when registering. Once registered, the taxpayer will receive an Employer Health Tax account number.

Please Note:

One account number is assigned to each self-employed individual. If the self-employed individual also employs staff, the individual will have a separate account number for paying the Employer Health Tax on payroll paid to employees.

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Confidential information

The Employer Health Tax Branch is responsible for collecting and keeping confidential taxpayer information. When self-employed individuals make account-related enquiries, they will be required to identify themselves by providing the following information:

- their name, address and account number for self-employed individuals; and
- their social insurance number.

Forms and enquiries

Employer Health Tax forms are available at all Branch regional offices and other Ministry of Finance offices. Taxpayers having questions about the Employer Health Tax may contact:

Employer Health Tax Branch Greater Toronto Area East Regional Office P.O. Box 627 33 King St. West Oshawa, Ontario L1H 8H5	Local:	436-4561
	Toll-free English:	1-800-265-9005
	Toll-free French:	1-800-265-1193
	Telecommunication	
	Device for the Deaf (TDD):	1-800-263-7776
	Facsimile	(905)-436- 4474

Pour obtenir une copie de cette publication en français, veuillez composer le 1-800-265-1193 ou écrire à la Direction de l'impôt-santé des employeurs, C.P. 627, 33, rue King ouest, Oshawa (Ontario) L1H 8H5.